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FISCAL IMPACT STATEMENT

LS 6455
BILL NUMBER: HB 1125

NOTE PREPARED: Jan 16, 2008
BILL AMENDED:

SUBJECT: Update of References to the Internal Revenue Code.

FIRST AUTHOR: Rep. Goodin
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that for taxable years beginning after December 31, 2007, references in Indiana law to the Internal Revenue Code and related regulations refer to the law and regulations in effect on January 1, 2008.

Effective Date: January 1, 2008 (retroactive).

Explanation of State Expenditures: *Summary* - The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2008. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2007. The update would include changes affecting tax years 2008 and after as a result of the following federal acts:

- (1) The Small Business and Work Opportunity Tax Act of 2007 (P.L. 110-28), signed into law May 25, 2007.
- (2) The Clean Renewable Energy and Conservation Act of 2007 (P.L. 110-140), signed into law December 19, 2007.
- (3) The Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142), signed into law December 20, 2007.
- (4) The Tax Technical Corrections Act of 2007 (no P.L. number yet), signed into law December 29, 2007.

The estimated fiscal impact of this bill and the federal acts generating the fiscal impact are summarized in the table below. The Clean Renewable Energy Conservation Act and the Tax Technical Corrections Act are not expected to generate a fiscal impact.

Federal Provisions	FY 2008	FY 2009
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Small Business and Work Opportunity Tax Act	0.0	(160,000)
Mortgage Forgiveness Debt Relief Act	(310,000)	(970,000)
Total Impact on State Revenue	(310,000)	(1.1 M)

The Small Business and Work Opportunity Tax Act includes various provisions relating to the tax treatment of Subchapter S Corporations. The Mortgage Forgiveness Debt Relief Act includes provisions excluding from gross income: (1) any income received by a taxpayer by reason of discharge, either in whole or in part, of debt on the taxpayers' principal residence; (2) up to \$500,000 of the gain from the sale of principal residence by a surviving spouse if the sale takes place within two years of the death of the spouse; and (3) benefits provided to volunteer EMS personnel and firefighters.

Revenue from the corporate AGI Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Revenues: The IRC update could potentially affect taxable income of individual taxpayers. The impact on counties imposing local option income taxes is indeterminable and would vary.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U.S. Congress, Joint Committee on Taxation,
<http://www.house.gov/jct/tableofcents.html>.

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